IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1945.

No. 316

MINNIE E. SHARP, individually and as Executrix of the Estate of WILLIAM E. SHARP, Deceased,

Petitioner,

vs.

GRIP NUT COMPANY, FRANCIS H. HARDY, CHESTER D. TRIPP and THOMAS G. DEERING,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT, AND BRIEF IN SUPPORT THEREOF.

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LAWRENCE J. WEST,
Attorneys for Petitioner.

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PETITION FOR WRIT OF CERITORARI.

To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

The petition of Minnie E. Sharp, individually and as Executrix of the Estate of William E. Sharp, Deceased (hereinafter sometimes called Petitioner) respectfully shows to this Honorable Court:

I.

Summary Statement of the Matter Involved.

Petitioner is the defendant and cross-plaintiff in an action wherein certain patents (hereinafter sometimes called "the patents") are involved. She is the widow of William E. Sharp (hereinafter sometimes called "Sharp Sr."), and in her capacity as Administratrix has taken title to the involved patents which were formerly owned by Sharp Sr. The issue revolves around the petitioner's charge that Grip Nut Company (hereinafter sometimes called the "respondent") has received exclusive benefits from the use of these patents without the payment of any compensation therefor. Certain individual plaintiffs, in control of the Grip Nut Company, are also named as co-plaintiffs, but their relation to the case need not enter into the discussion contained in this Petition.

In its opinion of June 30, 1945, the U. S. Circuit Court of Appeals (7th Circuit) has thus stated the situation:

> "The action was brought by plaintiff for a declaratory judgment against John H. Sharp (petitioner's son). In its complaint plaintiff alleged that John H. Sharp had charged it with infringing his patents and asserted that its defense was license and equitable title to the patents, and prayed that the rights of the parties be adjudicated. By its amended and supplemental complaint filed March 2, 1942, plaintiff alleged that Minnie E. Sharp, individually and as executrix of the estate of William E. Sharp, deceased, had asserted that certain products sold by plaintiff were covered by United States Patents which were her personal property. In this complaint plaintiff denied that it had infringed any patents belonging to Minnie E. Sharp and prayed for a declaratory judgment confirming plaintiff's right to continue its manufacture free from any

claim of infringement by defendant. To this complaint John H. Sharp answered, disclaiming all interest in the patents, and Minnie E. Sharp, in her answer, asserted ownership of the patents, and filed a counterclaim charging plaintiff with infringement."

For many years the respondent employed Sharp Sr. as its president. For a number of years, ending September 30, 1923, he acted as such under a written contract.[1] By the terms of this contract, Sharp Sr. was to receive, throughout its term, certain benefits, and the company was to receive for all time any patentable inventions he might make dur-

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[1] Prior to January 16, 1914, Sharp Sr. had been employed by the respondent Grip Nut Company, as its sale manager (Tr. 492.) On that date one Hibbard, at that time owner of the majority stock of the respondent company, entered into a ten-year agreement with Sharp Sr. (Def. Ex. 38, Tr. 491-494). This agreement provided for Sharp, Sr.'s employment in the managerial department at a certain salary and commission. In addition thereto, it was provided that Sharp, Sr. assign to the respondent company, during the ten-year term of the contract, all inventions that he might make relating to bolts and nuts, or means for making bolts and nuts, for the consideration of Sharp, Sr.'s receiving for each year of the ten-year contract a certain percentage of the outstanding stocks of the respondent Grip Nut Company (Tr. 492-493).

In 1918 the majority stock control was acquired by the respondents, Tripp and Hardy. At that time the remaining five-year term of the 1914 contract was superseded by a new five-year contract ending in 1923, between the respondent Grip Nut Company and Sharp Sr. which provided that;

> "if during the life of this agreement he shall make any inventions relating to bolts or nuts, or the means for making bolts or nuts, or any improvement in any invention connected with or useful for the manufacture of bolts or nuts . . . such inventions shall be the exclu-

ing the contract term. After its expiration, negotiations for a new contract were undertaken, and although never consumated Sharp Sr. continued on as president through the balance of his life which ended in June 1934. All the patents in issue were applied for after expiration of the written contract. They represent (1) inventions of Sharp Sr. alone, (2) inventions of himself and others, and (3) inventions of another than himself.

The patents cover inventions relating to improved nuts of the general type that have been manufactured by the respondent, and to machinery and methods of making such nuts. Sharp Sr. placed all of these patented inventions at the disposal of the respondent, and the record shows most of them were used extensively in its business operations. There is no question here regarding validity of the patents.

Following the death of Sharp Sr. in June of 1934, his son, John H. Sharp (hereinafter referred to usually as Sharp Jr.), succeeded to the presidency of the respondent, and continued in that capacity until his resignation in

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sive property of the Grip Nut Company . . ." (Tr. 426).

This new agreement also provided

> "that if said Sharp shall die during the life of this agreement, his executors or legal representatives shall sell to the Grip Nut Company, and the Grip Nut Company shall purchase within sixty days from the date of the death of said Sharp, all the common capital stock of the Grip Nut Company owned by said Sharp at the time of his death at the book value thereof. In determining the book value of said stock, the patents, good will and other intangible assets of the company shall be taken to be of the value equal to twenty per cent of the value of the tangible assets of the company common stock, but not less than $125,000,00" (Tr. 427).

1940. Demands for compensation on behalf of his mother, the petitioner here, were made by Sharp Jr. upon the respondent. Failing in these steps, Sharp Jr. left the company in June, 1940 and the filing of this action followed shortly thereafter.

On the trial of this case it was asserted by the respondent that is entitled to a shop-right in and to the Sharp Sr. patents; a shop-right in and to another patent (not elsewhere discussed in this Petition) wherein Sharp Sr. was a co-inventor, to the extent of his interest therein, and an equitable right to the remainder of the title thereof on the theory of trusteeship; and an equitable title to the remaining patents which Sharp Sr. had acquired from others, on the theory of trusteeship arising from the fiduciary relations existing between Sharp Sr. and the respondent. The District Court in effect sustained these contentions which were later affirmed on appeal. While the evidence is conflicting on certain points, there is no dispute concerning the essential facts which are here relied upon by the petitioner for refutation of the shop-right defense, and for denial of the trusteeship claim.

The respondent has relied heavily upon the decision of this Court in *United States* v. *Dubilier,* 289 U. S. 178. The controlling importance of this case was emphasized at the trial when respondent's counsel thus commented: (T. 360)

> "I will admit that prior to that time (of the Dubilier decision) that there had been a great deal of doubt as to just the ground upon which shop-rights rested. I think a great many of these cases—I won't say the weight of the evidence, but a good many were based upon the estoppel theory, that once an employee had let the employer use it, he couldn't stop him. I am not sure but the heft of authority went that way. But the Supreme Court in the Dubilier Case simply took the

whole thing, went into it thoroughly, and said that the shop-rights rested upon the inherent nature of the invention and the conditions under which it was perfected . . .."

Both the Trial Court and the United States Circuit Court of Appeals rested their decisions in large part upon the rule announced in the Dubilier Case. For reasons which are special to the case at bar, we contend it is not possible to apply the rule in the Dubilier decision without doing a substantial injustice. This subject is dealt with at length in the argument contained in our ensuing brief. The importance of a proper interpretation of the Dubilier decision at this time, because of the special circumstances which rendered it inapplicable, is stressed as an important reason why this Court should embrace the opportunity now afforded to give an authoritative pronouncement of its views in relation to a very unusual situation such as that which is presented in the case at bar.

The judgment of the District Court was entered July 5, 1944. Thereafter an appeal was taken and prosecuted to the United States Circuit Court of Appeals for the Seventh Cricuit Court whose decision affirming that of the Trial Court was filed June 30, 1945.

II.

Basis for Jurisdiction.

The jurisdiction of the Federal Court is based upon provisions of the Declaratory Judgment Act (Sec. 274 (d) of the Judicial Code, 28 U.S.C.A. 400) which the respondent invoked to obtain, if possible, an adjudication of non-infringement of the petitioner's patents; and upon the Act of March 3, 1887, C. 391, Sec. 6, 29 Stat. 694, and the

Amendment of February 18, 1922, C. 58, Sec. 8, 42 Stat. 392, U. S. Title 35, Sec. 70 which the petitioner invoked in her counterclaim for an adjudication of infringement of her patents.

III.

The Questions Presented Are as Follows:

1. Can the employer maintain a claim of shop-right in and to the patented invention of an employee, even when made with the employer's time and materials, when the only property right remaining in the employer is so curtailed,

(a) *by existing fiduciary relations between the employer and employee,* that any attempted exercise by the employee of that property right must involve him in a charge of *malum fides;* or

(b) *by the employee's ownership of an interest in the employer's business so substantial* (*25%*) that any attempted exercise by the employee of that patent property right must involve him in a substantial investment loss.

2. Can an employer maintain a claim of shop-right in and to the patented invention of an employee who conceived, reduced to practice, and perfected that invention *without any use of his employer's time facilities, or materials,* the employer thereafter making his first expenditures of effort and money primarily for sales promotion purposes.

3. Can an employer maintain a claim of shop-right or of equitable title to patents acquired by one employee, for in-

ventions made by another employee *without use of the employer's time, facilities, or materials,*

(a) When the title so acquired was accepted in settlement of a private debt; or

(b) when the inventor-employee had previously declined an offer therefor from his employer.

4. Can an employer maintain a claim of equitable title in and to a patent acquired by one employee for an invention made by another employee under a written contract which entitled the employer to ownership thereof, but obligated him to pay a royalty for its commercial exploitation, after the employer had declined to accept the invention and had cancelled the written contract, the employee so acquiring title to the invention personally assuming the patent expense and royalty obligation in order to save the invention from abandonment.

Wherefore petitioner respectfully prays that a Writ of Certiorari be issued out of and under the seal of this Honable Court, directed to the United States Circuit Court of Appeals for the Seventh Circuit, commanding that Court to certify and send to this Court, for its review and determination, on a day certain to be therein named, a full and complete transcript of the record and all proceedings in the case numbered and entitled on its docket No. 8677, Grip Nut Company, Plaintiff-Appellee vs. Minnie E. Sharp, individually and as Executrix of the Estate of William E. Sharp, Deceased, Defendant-Appellant; and Minnie E. Sharp, individually and as Executrix of the Estate of William E. Sharp, Deceased, Cross-Plaintiff-Appellant vs. Grip Nut Company, Francis H. Hardy, Chester D. Tripp and Thomas G. Deering, Cross-Defendants-Appellees, and that the said judgment of the Seventh Circuit Court of Appeals

may be reversed by this Honorable Court, and that your petitioner may have such other and further relief in the premises as to this Honorable Court may seem meet and just; and your Petitioner will ever pray.

MINNIE E. SHARP,

By

FRANCIS HEISLER,
EPHRAIM BANNING,
LAWRENCE J. WEST,
Her Attorneys.

Chicago, Illinois
August 1, 1945